

EX PARTE OR LATE FILED

DOCKET FILE COPY ORIGINAL

425 S. Woods Mill Road
Suite 300
Town and Country, Mo. 63017

July 10, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M St., N.W.
Washington, D.C. 20554

RECEIVED
JUL 10 1996
Federal Communications Commission
Office of Secretary

Re: Implementation of the Local Competition Provisions in
the Telecommunications Act of 1996; CC Docket No. 96-98

Dear Mr. Caton:

Pursuant to §1.1206 of the Act (47 C.F.R. §1.1206), an original and one copy of this letter are hereby submitted. On July 10, 1996, the above captioned docket with discussed during a meeting with James D. Schlichting, Chief, Competitive Pricing Division of the Common Carrier Bureau, David Sieradski, John Shapleigh, Executive Vice President of Brooks Fiber Properties and Charles P. Johnson, Vice President and General Manager of Brooks Fiber Properties. The attached handouts were used during the discussion of key issues. Kindly contact the undersigned if you have any questions in this matter.

Yours truly,

John C. Shapleigh /JS

John C. Shapleigh

cc: J. Schlichting

attachments

2

St. Louis BUSINESS JOURNAL®

Vol. 16, No. 42, \$1.25, 48 Pages, 2 Sections

<http://www.amcity.com/stlouis>

July 1-7, 1996

Southwestern Bell lets apartment owners' fingers do the walking

By TIM McLAUGHLIN

Southwestern Bell is reaching out and touching St. Louis apartment owners and managers to protect the company's dominance in the local telephone service market.

Under a five-state initiative called SmartMoves, Southwestern Bell is paying apartment owners and managers commissions to act as the company's agents to sign up local telephone and cellular service customers.

"It's like pennies from heaven," said Jon Pyzyk, president and owner of Clayton-based Kohner Properties Inc. His apartment company was one of the first in the area to strike a deal with Southwestern Bell's SmartMoves program. Several others have followed suit.

"My sense is that it's going to be a service for our customers," Pyzyk said. "When you have to sign up for telephone service it's like, 'Just get it over with.'"

Pyzyk estimated his apartment company's recent four-year agreement with Southwestern Bell will bring \$800,000 in additional revenue to Kohner Properties.

Southwestern Bell executives launched the program as a pre-emptive strike against their competition. They realize the



Photo by Peter Newcomb

Tonya McGrath, a Kohner property manager at University Plaza apartments, with materials she will use to sell tenants on Southwestern Bell service.

See BELL on page 30A

Bell

Continued from page 1A

company can no longer take for granted that people will always call Southwestern Bell for local telephone service, said John A. Leber Jr., an account executive for the SmartMoves program. He estimated Southwestern Bell controls at least 98 percent of the local telephone service market.

Leber said Southwestern Bell wants to establish strong relationships with apartment owners before the competition moves into the local telephone market. Deregulation allows companies like AT&T and MCI to purchase Southwestern Bell service lines at wholesale and then resell them to their customers.

"It's a real live threat," said David Otto, a telecommunications analyst for Edward Jones Co. "Whereever you see a cluster of people, it's pretty easy to wire up 1,000 people. TCI Cable, for example, has an entire division of people devoted to signing up customers for local telephone service."

GE Rescom, a subsidiary of GE Capital, which is owned by General Electric, has cut deals with at least nine apartment complexes in the St. Louis area, offering a commission structure similar to Southwestern Bell's, Leber said.

Leber said he couldn't disclose how much Southwestern Bell has budgeted for the SmartMoves program. "But we're not giving away the farm," he added.

Tonya McGrath, a Kohner property manager for University Plaza apartments, 607 N. Grand Ave., in midtown St. Louis, said her commissions should double as a result of Kohner's agreement with Southwestern Bell. Kohner employees will receive an undisclosed percentage of the largesse, with the remaining money going to the company, Pyzyk said.

As part of the company's existing bonus structure, Kohner maintenance, janitorial and other on-site workers will receive a piece of the commission pie. Kohner currently has 5,000 apartments in its real estate portfolio.

In a time of increased competition due to telecommunications deregulation at the state and federal level, Southwestern Bell targeted the apartment industry to tie up customers in bundles. Leber said the company has plans to strike similar deals with residential developers.

"When new homeowners select the color of their carpet, they can pick their phone service too," he said.

By the end of this year, the SmartMoves plan should have nearly 15,000 apartment units under contract in the St. Louis area, Leber said.

To date, SmartMoves has signed up several apartment owners and managers in the St. Louis area, including Nooney Krombach Co. and Centerco Properties. The program also is under way in Kansas, Oklahoma, Texas and Arkansas.

Besides the financial incentives involved, Pyzyk likes the program because of its simplicity. When new and existing apartment tenants want local telephone or cellular service, they can fill out a form provided by a Kohner leasing agent or property manager. The information is then faxed to a Southwestern Bell office, where a service order will be placed without the necessity of a telephone call. Apartment agents also will hawk additional calling features like caller ID and cellular phone packages, for example.

According to the SmartMoves commission structure, a Kohner leasing agent will receive \$5 for signing up a tenant for local telephone service. A property manager like McGrath will receive a \$2 commission, even though she doesn't have to do any paperwork.

Signing up tenants for cellular service, for example, is even more lucrative. Kohner leasing agents will receive a \$20 commission per customer, with the property manager collecting a \$10 commission.

McGrath said she figures to do well at University Plaza because a lot of her tenants are St. Louis University students, creating a high turnover rate for the property.

The 1995 annual report of SBC Communications Inc., the holding company for Southwestern Bell, details the threats to its turf by local service providers: "Some of these providers have built fiber optic 'rings' throughout large metropolitan areas to provide transport services (generally high-speed data) for large business customers and interexchange carriers."

"Southwestern Bell will do very well in individual choosing because of its brand name," Otto said. "But the problem comes when a cable company, for example, offers an apartment owner money. This is already happening in Texas... These are the seeds of competition that we see. It's not just AT&T that can knock on your door, but pretty much anybody."



SLOW MOTION LINE

Competitive local phone service hung up between dream and reality

By Jim Harger
Press Business Editor

Thanks to deregulation, consumers will soon be able to pick from several telephone companies.

And, cut-throat competition will build as each company offers local, long-distance, e-mail, Internet and paging services at bargain prices.

Sound familiar? Those predictions have been bandied about for several years and renewed this spring with new state and federal laws.

But, for the most part, you'll get a busy signal if you try to sign up anytime soon.

Even though Grand Rapids took on pioneer status

15 months ago when it became the nation's first market with a second local phone company, for most Michigan telephone customers, change is at a glacial pace.

That's because of foot-dragging by Ameritech Corp., the Chicago-based company which has long held a monopoly over local phone exchanges in most of Michigan, say several would-be competitors.

"Their game plan is to slow roll. Every day they slow roll, they win," says Martin Clift, director of regulatory affairs for Brooks Fiber Communications, which has been competing for local customers against Ameritech since April 1995.

A Grand Rapids area company found just that when it asked for a switch-over from Ameritech to a new

local competitor. The company complained it had to wait weeks and then endured repeated re-schedulings before it could shed its Ameritech connection. Ameritech says it was a glitch.

In any case, the battle lines between Ameritech and its competitors have been drawn in three major areas:

- Competition for local telephone service.
- Competition for short-haul or "intra-LATA" toll calls primarily within an area code. For instance, a call between Holland and Grand Rapids or Grand Rapids and Traverse City is an intra-LATA call.
- Competition from long-distance carriers who

PHONES *The sense of urgency in local phone service is not universal*

(CONTINUED FROM F1)

want to purchase local phone services at wholesale prices from Ameritech so they can re-package the service with their more comprehensive telephone service.

Despite the allegations of foot-dragging, Ameritech has a powerful incentive to cooperate with these competitors.

New state and federal telecommunications laws, signed earlier this year, allow Regional Bell Operating Companies (RBOCs) like Ameritech to enter the lucrative inter-LATA market if they are willing to share their monopolies with competitors and can demonstrate that.

However, the two sides are arguing over the timing.

Ameritech's position

Ameritech officials say they don't want to give up their monopolies until they can enter the long-distance business. Otherwise, they argue, they will surely lose their share of the market to the competitors who use their local services to sell complete "one-stop services."

"Those long-distance carriers — who are much larger than us — they want at least a four-year head-start on competing with us in our business before we can compete against them in their business," says Harry Semerjian, vice president of corporate planning for Ameritech Michigan.

Despite the complaints of foot-dragging, Ameritech now claims it has met a 14-point test for opening up local competition as estab-

lished by the new federal telecommunications act, Semerjian says.

He says Ameritech hopes to roll out its complete service package early next year. "We're simply going to be very, very tough competitors."

A snail's pace

Meanwhile, Ameritech's competitors say they are being bedeviled by slow service and slow responses to their efforts to jump into the local market.

Brooks Fiber, formerly known as City Signal and US Signal Corp. in Grand Rapids, has sued Ameritech and won cases before state regulators since it began offering local services.

But it's still been slow going, says Clift. Thus far, Brooks Fiber has won more than 2,500 local customers who use 10,000 lines. It still cannot offer local service throughout the entire Grand Rapids dialing exchange.

Brooks Fiber hopes to begin offering local service in the Holland-Zeeland, Dutton and Hudsonville exchange within the next eight weeks, says company President Larry VanderVeen. The company had originally planned to get hooked up in Holland and Zeeland by spring.

However, those inter-connections require cooperation from Ameritech, a rare commodity these days, says Clift. Ameritech typically needs two weeks notice to schedule a switch-over for a new Brooks Fiber customer, he says.

When Grand Rapids Plastics contracted with Brooks Fiber in early June, its scheduled switch-

over time was changed three times by Ameritech, says Dean Truax, controller of the 215-employee company.

The switch-over, which had to be accomplished from two central switching offices, was handled by one Ameritech employee who took 2½ hours to get the job done, says Truax. "It should have taken 15 minutes," he says.

Ron Meschke, office manager of Excellor Machine Co. Inc., says he had to run his office from a car phone for four hours while they waited for an Ameritech employee to complete a switch-over to Brooks Fiber.

Despite their best efforts to plan the switch-over carefully, Meschke says the move created "kind of a war zone over here."

Ameritech's Semerjian says the inter-connection problems are not part of a deliberate campaign to slow the pace of competition.

"When you're in the midst of a change as significant as the one you have with Brooks, there are bound to be situations where one party or the other has problems," he says.

Dial 1 for access

Other competitors have complained to the Michigan Public Service Commission.

Ten days ago, the PSC ruled Ameritech must provide "Dial 1" access for those competitors who want to sell intra-LATA services.

Competitors such as AT&T and MCI currently can sell "short-haul" long distance calls. But in most areas, callers are

required to enter five-digit access codes before the calls can be billed to those competitors. With "Dial 1 parity," customers can use those carriers simply by dialing "1" before making the call.

Richard McClellan, a Lansing lobbyist who heads the Michigan Competitive Telecommunications Providers Association, says "short haul" is a \$700 million chunk of business Ameritech is loath to give up.

As required by the new state law, Ameritech had opened up 10 percent of its Michigan market to "Dial 1 parity" in January. But Ameritech has refused to follow a PSC timetable for "Dial 1 parity" in at least 50 percent of its market by May 1.

The PSC backed the competitors, ruling that Ameritech must open 99 percent of its territory to "Dial 1 parity" by December. Ameritech officials say they probably will appeal the ruling or ask for a re-hearing.

McLogan to negotiate

Another set of regulatory knots have been created among competitors who want to re-sell Ameritech's local service as part of a comprehensive telephone package.

The PSC recently appointed former Public Service Commissioner Matt McLogan, of Grand Rapids, to mediate the stalled negotiations between Ameritech and AT&T and MCI. A PSC spokeswoman said the companies involved in negotiations will pay for his services.

AT&T spokesman Oriano Pagnucci says AT&T requires a 25 percent to 30 percent reduction from Ameritech's retail price if it expects to compete as a re-seller of local phone services.

However, other issues also enter the debate. One big issue is "number portability," which allows customers to keep their phone numbers regardless of what company they use.

Other issues such as billing, operator assistance and "call branding" also play a role in the complex talks, Pagnucci says.

PSC Chairman John Strand said the three-member board chose McLogan to mediate the dispute to get competition underway more quickly.

Pulling back

Meanwhile, another would-be competitor, LCI International, announced Tuesday it was withdrawing from formal negotiations with local carriers such as Ameritech, GTE and Cincinnati Bell.

LCI, which attained a large share of Grand Rapids' long distance market when it acquired Grand Rapids-based Teledial America, has been licensed to provide local service in the Grand Rapids area since late April.

LCI will wait until new federal regulations are published in August before it renews its negotiations with Ameritech, said Doug Kinkoph, LCI's director of regulations.

Although LCI could have pushed for arbitration with Ameritech and other regional Bells, Kinkoph says several of the regional Bells have refused to negotiate at all as the arbitration deadline loomed.

"We didn't have anything to arbitrate," he said.

Randy Veltkamp, vice president LCI's Grand Rapids offices, says a local license was no guarantee his company would be able to go into the local telephone business anytime soon.

"Once you've got the documents signed, your troubles have just